

No Mandate for Drastic Change: UB2K

Abstract

In a brief comment on the Union Budget 2000, the article looks at the accumulated baggage over the decades that is needed to be dealt with. While acknowledging it as a politically correct budget, the article argues that forces beyond the control of a Finance Minister are operating that make it difficult to initiate rational steps, or even begin a dialogue to build a consensus in the country, for fiscal recovery. Thus, at best, the Union Budget 2000 only highlights the problems facing the nation without grappling with any one of them.

No Mandate for Drastic Change: UB2K

Objectives of the Union Government Budget, since independence, have remained unchanged. These are:

Accelerate Economic Growth,
Generate Employment Opportunities,
Infuse Infrastructure Investment,
Raise Savings, and
Limit Inflation.

Will the first new millennium Union Budget 2000 (UB2K) of the present government achieve these objectives? This appraisal must be made in light of the historical past.

The Accumulated Baggage

Over the last few decades, India has lived with a large annual deficit and created mountain size holy cow subsidies. It has gathered gigantic state government overdrafts, lofty NPA's and huge PSU losses. Over time, it has accumulated colossal debts, domestic and international, with budget size servicing requirements. Year after year, it has earned progressive, persistent, sometimes unacknowledged, devaluation of rupee against dollar and other hard currencies (from a mere Rs 4.76 to a US\$ in 1951 to the current Rs. 43+). As a nation we have simultaneously cultivated a pride in tax evasion while providing for Tax Heavens to benefit dear friends and benefactors. The only silver lining has been the consistently high rate of savings, above 20%, something any Finance Minister should feel grateful for. Recently, with one rational stroke, we have also achieved a doubling of the income tax-payer base, though still a small segment of the earning population, from a creeping growth in the past. Even here, we have yet to consider the average yield per tax payer. Ordinarily this would call for a drastic action by any Finance Minister.

Forces Beyond Control

If successive governments and their Finance Ministers, particularly since the crisis year of 1991, have been unable to make a significant dent in any of the above areas, it obviously means that forces beyond the control of a Finance Minister are operating. Forces that prevent rational decision making and corrective action. Forces that include the irresolute governments, coalition politics, opposition whose *sine qua non* is 'to oppose' and a smug bureaucracy that can only look after its own interests *a la mode* it's masters.

That we have too many protected robber barons in the nation is well known. All countries and successive generation have had such barons. The difference, however, is that our aristocrats stash away their gains in the so called non-corrupt countries. After all we live in a world in which nations and organisations giving kickbacks and inviting investments of bribery sums are not corrupt, only those receiving bribes are.

Meanwhile globalization and liberalisation coupled with the military might and high technologies are enabling the developed world to put a pressure lid around the populous developing world. In this scenario where do our democracy, leadership and government interventions fit in? Particularly when our leaders are busy with settling their own petty scores and altering their individual and party political influence boundaries an inch here and a centimetre there.

The Appraisal

Against this backdrop, the UB2K by the Finance Minister can, at best, be seen as plucking a guarded courage in nibbling at the problems without really grappling with them. No doubt UB2K is a politically correct budget. Not only it attempts to take care of the voices within and among the ruling party allies, it even makes investments in areas where its own party influence is close to nil. It even allocates sums to mollify its arch rivals. While opening the door to larger deficit and debt, it takes credit for protecting the consumer, both traditional and new. How does it achieve a de-linking of Consumer Price Index from the market reality where prices keep going up, is worth exploring. Certainly, it simplifies the structure a bit here a chunk there, without really taking the bull by its horns. It aims to limit the non-taxed sector and brings under the net duty draw back earnings without necessarily hurting.

Nonetheless, it makes no attempt to limit size of the government. It offers no incentives to its own departments to improve efficiency, nor to state governments to bring in fiscal discipline, nor to the PSU's to improve productivity. While it aims to limit the PDS beneficiaries, it ignores diversion of supplies to the open market. While it promises to usher in the second generation reforms, it does not draw, let alone share with the nation, the balance sheet of a decade under first generation reforms. In short, though the budget acknowledges the problems facing the nation, it barely manages to highlight them.

Obviously, the present Government and its Finance Minister does not have the mandate to undertake any drastic action. Not even to build a consensus for initiating change to set the country on to the desired path of fiscal recovery. So time will tell whether it is time to congratulate the government for continuing to keep the national nose above the waters or pray. Until the next tide, that is.